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Setting up internal control in French state administration: deficiencies and prospects for a performance instrument

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Abstract

The French Court of Auditors (la Cour des Comptes) is the supreme national evaluation and control body. It has had responsibility for certifying national accounts since 2006, when it was given this role as a result of one of the major state reform acts in past decades (the *Loi organique relative aux lois de finances*¹, LOLF). Since then it has consistently highlighted the deficiencies of ministerial internal control (IC) systems. In its 2009 account certification report², the Court makes this one of its two most significant reservations, thereby increasing pressure on the players in this process, especially ministries.

The first point the court raises is that the issue of performance underlies the process of internal control. This type of approach goes far beyond a ‘simple’ search for accounting quality. To consider accounting as the foundation for IC is a short-term and narrow view. The actual purpose of IC is to leverage efficiency and effectiveness to achieve public policy goals.

In this context, IC is a “government toolkit” (Hood, 1983)³ or more an “instrument of public policy” (Lascoumes & Le Gales, 2004) which is part of a comprehensive approach supporting global issues. Basically, IC goes far beyond simply being an accountant’s toolbox.

While the urgent demands of the Court reveal a deeper, background objective of risk management, they also and especially highlight the shortcomings of IC devices in most state administrations. The comparison between an empirical analysis of the situation and a comprehensive definition of IC highlights significant fundamental shortcomings. This analysis has been built on official documents (legal frameworks, budget laws and associated documents, Court and administrative reports, etc.) and on over 2 years of observation in

¹ *Loi n°2001-692 du 1^{er} août 2001 relative aux lois de finances*

² Cour des comptes, *Audit opinion on the financial statements of the central government – Fiscal Year 2009*, May 2010

³ Christopher Hood (Hood, 1983) talks about a “toolkit” in a similar way, but this risks being understood as a toolbox and limits the concept of the tool.

professional practice. The principal result is quite clear: the commonly cited cause of administrative inertia cannot alone explain the immaturity and lack of effectiveness of IC; these deficiencies are mainly structural.

A qualitative study of the perceptions of the various actors (advisors, inspectors, operations staff etc.) supports this observation. The main factors to be considered are:

- The perception of concepts and, as a consequence, the limited field of IC development. The key notions of risk management, performance, processes and IC are understood and assumed by actors in very different ways. Mutual misunderstanding of concepts and their application has led to the use of IC devices in restricted financial areas, instead of turning them into a widespread cross-activity instrument.
- The scheme of governance. The restricted perimeter of IC application is also related to administrative issues of responsibilities and power. Deeply rooted spheres of influence and potential competition on issues can also be assumed to be limiting factors for IC. This leads to a heterogenic scheme of IC governance, with complex functional and hierarchical roles. The major consequence is that the issue is not fully taken into account by key operational levels of the administration.
- Short-term objectives oriented management. Moreover, most of the key administrative officers (such as high-level civil servants etc.) are focused on short-term objectives. The completion of their annual objectives is more important to them than investing in a mid-term comprehensive approach. Consequently they are focused on reducing their ministry's exposure to a critical report (reaction) instead of building an integrated vision of IC (pro-action).

The overall analysis leads to a major finding. It makes it possible to create a first level representation of the structural and functional organization of risk management. This systemic approach (at this stage it is non-exhaustive) gives a consistent view of structures, functions and interrelationships (both weak and strong). It highlights the particular role of the public finance department (Direction générale des Finances publiques, DGFIP) in this system. Furthermore, it foreshadows the development of a model that may make testing of optimization scenarios possible.

Introduction

In common with countries such as Australia or New Zealand, the French state has enforced the independent certification of national accounts as a mandatory procedure since 2006. This responsibility is entrusted to the *Cour des comptes*, which is both the Supreme Court for public finance matters and auditor-general, assisting parliament in its control prerogatives. This activity offers a unique insight into the management of public finance in France, and the public accounts' statements from 2006 to 2010 are interesting for more than one reason.

The general opinion of the Court is clear: things are improving. From the initial thirteen substantial reservations recorded on the 2006 accounts, they are only seven in the 2010 report. This highlights the progress the administration has made. However, the situation is actually the result of two opposing developments. On the one hand, ten of the reservations initially identified have been resolved during these five years. On the other hand, new reservations have been added to the list, as the expectations of auditors have risen. Consequently, the pressure on government departments has been maintained at a high level.

However, what is perhaps most striking in the analysis of these five reports is that six of the seven reservations in the 2010 report have appeared continuously since 2006. They highlight the core difficulties faced by the state administration. Of these six reservations, the first two (which relate to information systems, and internal control and audit) are unusual and deserve particular attention.

The first point to note is that they are singular in scope: they are the only two issues that affect the entire range of national accounts. They are also singular in nature: unlike the other reservations, these two do not concern the nature of operations, but the modalities of government management. The Court therefore calls attention to the organization of public sector management rather than its targets.

The issue of information systems in public management although critical, is outside the scope of this article. The capabilities of information systems play a transformational role in public sector management and although the ability of governments to effectively manage the implementation of large technology programs is an important topic, it unfortunately cannot be addressed in this paper.

Rather, this issue here is to discuss the second reservation of the Court, namely internal control and internal audit mechanisms. The Court has expressed a clear preference for a particular mode of administrative organization; one which places *control* at the heart of management. This approach is typical of New Public Management (NPM), and is in keeping with the major changes observed in most western countries (Bezès 2005). The development of public audit systems is a prime example of this.

France lags significantly behind other countries in this domain (Guillaume 2009). However, it is striking that the *obsession with control* (Power 2004) has focused almost completely on the audit, while the Court raises both *internal control* and *internal audit* as issues. This differential treatment is curious. While the audit is relatively well understood by most professionals, it seems that internal control is less interesting.

The purpose of this paper is to propose an alternative analysis of the audit/internal control pairing. It focuses on the concept of internal control, which is often portrayed as an austere technical device, rather than being seen as part of an integrated and operational risk management strategy. We will discuss the extent to which the concept can form one element of such a strategy. This discussion goes far beyond the limited and generally prevailing restrictive interpretation of internal control, which sees it as a tool to verify the compliance of accounting operations.

We also discuss the idea of internal control in the broader context of New Public Management, in order to explain why the Court places such emphasis on this device, and to illustrate how it can be used as an instrument of public policy, in combination with other management instruments such as audit or management controls (Lascoumes and Le Galès, *Gouverner par les instruments* 2004). The purpose here is not to attempt to make an assessment of the merits of the Court's recommendations but to highlight the fact that the characteristics of internal control are fully consistent with the objectives of the Court, and this, within a general framework of public policy which is clearly influenced by NPM.

We conclude with a discussion of the reality on the ground, and highlight the structural factors that contribute to the lack of maturity in internal control within government

departments. This is achieved through an empirical analysis of the structures, methods, perceptions and behaviors that accompany the implementation of internal control measures in state administrations.

An operational risk management device

First of all it is essential to determine what is meant by internal control (IC). A simple but legitimate interpretation of the term (for French speakers) would suggest that it is a technical verification carried out by administrative bodies. As noted earlier, this is a common, but limited approach. An examination of the definitions offered by the major authorities on the subject makes it clear that this view is mistaken, and that internal control is actually far closer to a *culture of risk management* than a list of checkpoints.

Most thinking on internal control, from theory to regulatory texts, makes reference to at least one of the three major frameworks (Coso, CoCo and Turnbull). With their origins in financial management, these recommendations were intended to ensure accounting quality in the private sector. Like many other private sector practices, they have gradually been incorporated into the public sector¹.

However, the French translation of the term *internal control* is quite restrictive when compared to the original Anglo-Saxon terminology. Taking the Coso framework as an example², control means ‘to have a voluntary influence on the achievement of a defined objective’, while the French locution *contrôle* is more related to verification. The qualifying adjective *internal* refers to the idea that the device is implemented throughout the entire organization which forms the perimeter of the activities to be controlled. This emphasis on an internal view highlights one of the most important characteristics of the concept. The full title of the Coso framework offers further insight into the term. It is called *Integrated Controls–Integrated Framework* which highlights the importance of the complete integration of control into the organization and its activities.

Therefore, internal control is not a check or inspection but a global and integrated process of activity management. As such it is not a *contrôle* – in the strict French sense of the term – although it can include controls (Direction générale de la Comptabilité publique 2005).

Risk as a core concept

The wording used in Turnbull framework is particularly useful in this respect as it describes risk as the key concept in a comprehensive IC system: ‘by helping to prevent and control the risks that may prevent the objectives set by the company being achieved, internal control plays a key role in the conduct and monitoring of its various activities’ (1999). Therefore, and despite the historical translation bias for French speakers, IC is intrinsically a *risk management device*. The idea is to create an organizational context which makes it possible to identify and control ‘any dysfunction that may cause damage to one of the objectives of a business process or one of its resources or its environment’ (Dassens 2007). The definition proposed by Dassens is particularly interesting in that it puts objectives at the heart of the

¹ See Saint Martin (1998) for a description of the influence of consultants in this respect.

² Internal control-integrated framework, published by the *Committee of sponsoring organizations of the Treadway Commission*, 1992

concept of risk, which puts into context the definition currently used by the French administration which describes risk as, ‘any event that makes it impossible to achieve objectives when it occurs’ (Direction générale de la Comptabilité publique 2005) . It is important to note that the definition of the organization’s objectives is not part of, but an input to IC, which remains an administrative support to the organization. IC is not a substitute for strategic management, rather it enriches it.

The fundamental link that exists between IC and risk should not be forgotten. It is essential as it requires any activity to be seen as *potentially* risky, including public sector administration. In calling for (if not imposing) the implementation of a governmental system of IC, the Court implicitly reminds ministerial entities that the administration of the state is a risky activity.

Reasonable expectation of achieving the objectives of the organization

However, the term *risk* is polysemic and recent developments in international standardization offer a particularly useful complementary vision of risk as *the effect of uncertainty upon targets*¹. This is a more limited interpretation of the generally accepted causality phenomenon typically understood to be the definition of risk. In a situation characterized by uncertainty, it is impossible to identify all factors, events and impacts, and the relationships between them. In reality, it is impossible to separate these elements. This potentially circular causality relationship resembles that found in cybernetic or systemic feedback loops. Taking uncertainty into account in such a mode of operation tends to lead to emergent proprieties which cannot be defined or quantified; a situation which could justify analysis using a systems approach. In this context, zero risk does not really exist. It is therefore valid to say that IC cannot provide a guarantee against risk.

Internal control is one element among others that serves the goals of the organization. The wording conventionally used is that IC provides a reasonable expectation of achieving these goals. The implementation of IC is by no means sufficient for success, and the probability of achieving success is subject to the same limitations inherent in any system - for example misjudgments, malfunctioning due to human error or simply, errors.

To summarize the main characteristics of IC, we offer a synthesis of the various definitions and views of it that have been proposed since the concept was first formalized in 1992. In our opinion, IC can be defined as:

- An organized, ongoing, integrated and dynamic set of behaviors, actions, resources and procedures:
 - adapted to the characteristics of a specific organization,
 - defined by the board of directors and management, and implemented by all its members, and
 - driven by a dedicated process.
- Providing a reasonable expectation of achieving the organization’s objectives:
 - by contributing to the control of its activities, the effectiveness of its operations, and the efficient use of its resources,
 - by taking appropriate account of significant risks which its activities may expose it to.

¹ ISO 31000: Risk Management 2009

IC and audit: an evaluation of IC effectiveness

As with any process, it would be logical to measure IC through a comparison of objectives and results, i.e. effectiveness. However, this is difficult given the nature of risk. IC is closely related to the idea of uncertainty and is applied to activities that it does not directly control. Achieving the objectives of IC is therefore not simply a matter of putting the device in place, as it can be influenced by factors that are not directly identifiable or quantifiable. In addition, IC can be deemed to be effective if the device is built and implemented according to best practice. In this context the audit, as ‘the evaluation by a professional expert [...] of the effectiveness of a system [...] and its improvement through recommendations’ (Cohen 2010), provides an essential support to IC and is the key factor in its continual improvement.

It is important to note that in the context of the French public sector a financial audit is not an inspection. Inspection is primarily related to investigation, often undertaken when non-compliance is suspected. Inspection can lead to sanction, unlike the audit which consists of recommendations for improvement. ‘The auditor is not an inspector, on the contrary, they are an advisor and a friend who listens to the issues entrusted to them in order to resolve them, jointly and in agreement with management.’ (Cohen 2010).¹

	Inspection	Auditing	Internal Control
Periodicity	Unscheduled	Scheduled	Permanent
Position	External to the organization	Independent Internal or external	Integrated
Target	Regularity	Effectiveness	Control
Method	Guides	Standards	Best practice references
Consequences	Sanctions	Recommendations	Action plans
Responsibility	Guarantee	Opinion and reasonable expectation	Reasonable expectation
Typical job	Policeman	Consultant/auditor	Manager

Figure 1: Comparison of Inspection/Auditing/IC, from Cohen (2010), adapted by the authors.

Internal control and management control

An empirical investigation of the perceptions of civil servants has highlighted the confusion (not only in France²) between the concepts of internal control and management control. Far from being trivial, this lack of understanding calls for clarification as it underlines the difficulties many administrations encounter in setting up and coordinating systems which aim to manage and control performance. Management control can be defined as ‘a management system implemented by an official who works within the limits of their responsibility in order to improve the balance between the resources employed (including human resources) and

¹ This point is essential when looking at the traditions of French administration. Auditors are usually seen as inspectors despite the fact they are not. This is a major sticking point in the development of IC and the audit process in state administrations. The recent establishment in some ministries of internal auditing inspection authorities contributes to the confusion.

² The United States General Accounting Office considers IC and management control to be synonymous (GAO IC Reference Guide, 1999).

activity or results, in the context of a defined strategy'¹. Management control is therefore a process through which managers can influence other members of the organization and implement the organization's strategy (Anthony, Dearden and Govindarajan, Management control systems 1992). Authors such as Inglebert (2009) prefer to talk about the process of *performance management* rather than *management control*, to emphasize the core objective of the process as a support for decision-making and future actions. Management control is similar to internal control in that it is a search for efficiency, effectiveness, compliance and reliability.

However, there are two elements which clearly distinguish the two concepts. First, management control is a device for measuring activity, close to operations but separate from them, while IC is a component of the activity itself. Second, IC is an element of the operational management of the activity, while management control is a support for strategic decision-making. The two processes share the same goals and both require the commitment of senior management. They support each other in order to serve the effectiveness and efficiency of the organization's activities.

IC is therefore more an operational than a strategic device. By putting control of risk in the hands of every employee and at the heart of each operation, internal control may be seen as a genuine *cultural view* of operational risk.

Internal control as an instrument of NPM

At this stage a simple question arises: why is the Court so insistent on the implementation of IC in the French administration? Until the publication on June 28th 2011² of a decree on internal audit, there was no legally binding text that required its implementation. The 2001 *loi organique relative aux lois de finances* (organic law on finance laws, commonly known as the LOLF) which established a new foundation for the budget and national accounts, does not mention IC or risk management policy. Instead it makes reference to the principle of accountability of public officials to citizens included in Article XV of the Declaration of Human Rights³, and introduces the principles of honesty and quality in national accounting, expressed by the obligation to certify accounts and in performance requirements.

Although it is not obvious why IC should have been chosen as an appropriate system to fulfill these requirements, it is a particularly interesting question as it reveals the implicit political theoretical foundations behind it (Lascoumes and Le Galès, Gouverner par les instruments 2004).

A medium for NPM

Using the definition we have proposed, a few points emerge that highlight the view of IC as a concrete expression of New Public Management.

On the one hand, IC is inherently based on a collective understanding by the entire administration of objectives and results. This essential feature conflicts with the hierarchical

¹ Inter-ministerial minute on internal auditing, June 21st 2001

² Decree n° 2011-775 of June 28th 2011 on internal audit

³ "Society has the right to require of every public agent an account of his administration." Article XV, Declaration of Human Rights, August 26th, 1789

model inspired by Weber which has characterized the French administration and assures the execution of policy decisions while ensuring at the same time that the objectives of these decisions are not disclosed (Merrien 1999). This strict separation between politics and administration is driven by Weber's concern for the impartial, uniform and non-partisan enforcement of policies (Bezes 2007). However, empirically, it leads to mode of operation founded on the implementation of distributed resources, rather than the organized conduct of public policy. This situation is sustained by the authorities themselves; each administrative entity tries to maintain its position in the hierarchy through an increase in their budgetary allocations.

A mode of operation based on resources is not devoid of goals. However, objectives are specific to each entity and directed towards its own interests. The extension of power can become more important to ministries than solving the problems they were created for (Merrien 1999). IC helps to create a set of goals, shared by administrative entities, which target the general interest rather than maximize local interest. In this way, IC brings *meaning* to the strategic objectives of an administration. In fact, it almost makes it mandatory for public servants to take these overarching goals into account. If it did not, any attempt to manage risk would be rendered meaningless. IC is also indicative of current state reform policies and the body of theory that inspires it. It forms part of the transition from a means-based position to a logic of objectives, results and performance, in which administrative bodies work towards meeting the objectives set for them by public policy (Lambert and Migaud 2006).

IC also implies responsibility as it is based on a collective understanding of risk by everyone in the organization, in order to achieve better individual and collective effectiveness and efficiency. It becomes the responsibility of the public servant, now a manager, to maintain a balance between resources and goals through their decision-making rather than simply deciding how to manage expenditure (Trosa 2005). This change, which is almost a paradigm shift, is often described as revolutionary in that 'it forces everyone to think about the consequences of their decisions and the results of what they do'¹.

The formalization exercise required by IC can be used to stimulate thinking on the extent to which objectives, resources and the responsibilities of ministries are coherent. It can only be successful if administrative action is seen, in its entirety, to be in the service of public policy. In other words, a vision of activities which is orthogonal to the hierarchical structure is a fundamental and essential element for the modernization of public sector management. The approach makes it possible to formalize activities, identify responsibilities and place each administrative entity at the heart of a global process of public service 'production'.

From this angle, government administration becomes a global system which synthesises activities in interaction with each other and the environment. This mapping-out of processes (Froman, Gey and Bonnifet 2003) provides a view of the organization as an open system; relational, inclusive, diverse and self-organizing (De Rosnay 1977; Durand 1994; Donnadiou 1997). Unlike a private sector company, it has been said that the mapping-out of the processes in public sector administration provides an artificial view of the socio-technical system (Vautier 2001). The use of IC could lead to this conclusion as the primary objective is to create a formal representation of the activities of an organization through the identification of processes. In our opinion this represents one of the biggest changes that the French

¹ Official address by French President Nicolas Sarkozy at the 200th anniversary of the official inauguration of the *Cour des Comptes*. Paris, November 5th, 2007.

government is making, as it bears upon the quasi-cognitive limitations of public servants whose value systems have been formed from the rational-legal Weberian model. Moreover, it is not clear that the changes will be effective and there is no indication that they have been fully assimilated by government departments. One author claims the situation ‘resembles a stage show where reform is the scenery in front of which everything continues the way it was’ (Lubeck 2007).

By introducing a process-oriented approach which requires operational actors and managers to be made accountable, IC aggregates axioms derived from neoclassical economic theory. It implicitly requires the application of best practice coming from private companies, typical of NPM (Baruch and Bezes 2006). It is a vehicle for the implementation of the principles underlying state modernization and becomes an *instrument*¹, in the same way as the LOLF or *Révision générale des politiques publiques*² (General Review of Public Policy; RGPP) are instruments.

An inconspicuous instrument

However, the reform movement has not been fully accepted. Merrien (1999) notes that, ‘in the guise of what appears to be a purely technical and apolitical revolution, New Public Management is part of the neo-liberal challenge to the Welfare State’. This is also true for the LOLF, and has been summarized by Lambert (2001)³ as, ‘modernize public management to reform the state’⁴. IC can be seen in the same way. Although there is a robust body of theory to support the concept, this is pushed to the background when it comes to the administrative agenda and integration into state services. The decree of June 28th 2011 is a good example. Although it is a decree on *internal audit*, the core text recommends making IC a mandatory part of risk management policy, supported by the internal audit⁵. Although IC and risk management are the real issues, it was the audit (a neutral and better understood concept) that took precedence when the measures to be implemented were presented⁶.

IC can be seen as an example of the *inconspicuous instruments* of public administration (Bezes 2004) which cannot be seen in major laws or institutions and remain in the background as ‘the invisible drivers of public policies’ (Lorrain 2004).

¹ In the sense that, “An instrument of public policy is a technical and social device organizing the specific social relation between public power and its recipients, regarding representations and meaning it carries out.” (Lascoumes and Le Galès, *Gouverner par les instruments* 2004). And, “We can imagine government as a set of tools [...]. Government administration is about social control [...]. But there is a toolkit for that; just like anything else. What government does to us [...] is to try to shape our lives by applying a set of administrative tools, in many different combinations and contexts, to suit a variety of purposes.” (Hood and Margretts 2007).

² The RGPP has formed the framework for global reform of state entities since 1997. It focuses on the rationalization of resources for public policies. Under the program, 50% of civil service positions becoming vacant due to retirement will not be filled.

³ Alain Lambert is a former budget minister. At the time of writing, he is a member of the Senate Finance Commission and a magistrate at the *Cour des Comptes*.

⁴ Report n° 343 (2000-2001). Alain Lambert, on behalf of the Senate Finance Commission, May 29th 2001. Available on the French Senate website (<http://www.senat.fr>).

⁵ “In each ministry, an internal control and internal audit should be implemented, tailored to the responsibilities and structure of departments, to ensure control of the risks related to the management of public policies that these departments are responsible for” Article 1, Decree of June 28th 2011.

⁶ This decree was the consequence of the 2009 General Inspection of Finance Administration Report (op.cit.), which also focused on internal audit.

The use of IC as a technical tool has gradually been integrated into administrative entities as an apolitical device. In the words of Bezes (2004), IC is 'almost neutral'. In contrast, the LOLF and to a greater extent, the RGPP are understood by public servants to be politically motivated. They (much more than IC) are the focus of marked reluctance or opposition, expressed in political or ideological forums. The view of IC as a tool in the public sector manager's toolbox has helped to keep the issue of risk management out of the political arena. This has limited debate on whether it is relevant or how it should be implemented. What would, in a private sector company be a question of policy, has been integrated into government departments through technical means. Depoliticization of the instrument has extended its influence (Lorrain 2004) notably because actors become dependent on it: politicians depend on experts, and experts depend on the instrument which partially justifies their existence (Bezes 2004).

In addition to a view of the instrument as a concrete example of the theory, the instrumentalization approach proposed by Lascoumes and Le Galès (2004) focuses on its uses and effects, which are intrinsically related to the actions of actors, 'An instrument is never reducible to a pure technical rationality. It is inseparable from the agents who produce its uses, and are changing it up from the communities of specialists'. Therefore it behooves us to take a pragmatic look at the reality of IC.

IC deficiencies in state administration

A quick look at the Court's reports on national accounts shows that the current state of IC clearly does not satisfy their requirements, and furthermore does not serve its intended purpose. However, does this mean that IC has had no effect on the public administration entities that have implemented it?

Quick overview of the situation

First, it is clear that in most departments IC is mainly seen as an accounting or financial control. This is partly related to the way IC has historically been viewed in the public sector. In France, it was accountants who first took an interest in the topic in the late 1990s in order to improve the quality of accounts and reduce fraud (the same line of thinking that led to the preparation of the Coso report in 1992). Consequently, the objectives of safeguarding global expenditure and tax collection at the governmental level can still be clearly seen today in IC management structures. Cross-ministerial responsibility for IC was assumed by the *Direction générale des finances publiques* (General Directorate for Public Finance; DGFîP)¹ through the *Mission Doctrine comptable et contrôle interne comptable* (Office for Accounts Policy and Internal Accounts Control; MDCCIC). The DGFîP produces the national internal accounting control framework and coordinates departmental officials. However, the authority of the office is strictly limited to accounting quality.

Since 2004 the implementation of IC in government ministries has been limited to accounting activities and has only involved a small number of ministerial departments. This has led to the understanding of IC as a technical device, focused on control, rather than developing a broader understanding, more in accordance with a comprehensive definition of the concept. As a result risk is not considered a core issue, but rather as a support for operational control.

¹ The DGFîP is the result of a merger in 2009 of the former public accounts department (*Direction générale de la comptabilité publique* - DGCP) and the former tax department (*Direction générale des Impôts* - DGI)

Moreover, as the effectiveness of IC is unclear, the legitimacy of the approach has been questioned, while at the same time its extension to other fields of administrative activity is planned.

The role that IC has played in accounting activities has gradually led to other initiatives, notably internal budget control (in use since 2010 by the budget department). Other initiatives include the public sector payroll system and information systems to manage human resources.

While IC should be a comprehensive approach, the momentum behind its implementation has been diffused over time and in scope, which has tended to limit the expected gains in efficiency and efficacy, as the *Cour des comptes* has noted.

The question arises: what is the current situation in government departments, who are ultimately responsible for adapting and implementing the approach in their own specific context? If the Court is to be believed there has been a lack of human resources to pilot the system and to manage auditing of the process, in a context where resources are focused on other priorities¹, rather than a failure to establish structures and tools.

While noting the undeniable improvement in accounting quality (although this is a narrow focus), the Court underlines the fact that the necessary formalization of processes and the essential extension of the field of application of IC are clearly not yet sufficient. Their analysis is supported and complemented by an empirical study that highlights some additional points².

The lack of a comprehensive approach

The first point to note is that IC approaches (related to accounting, budgets, salaries etc.) are fragmented, even though, by definition, the approach must be comprehensive. This does not mean that it should be uniform, rather that it must be addressed by the organization as a whole³.

However, empirical observation of the situation shows opposition to this idea. The various domains of application partially overlap, and more importantly, departments use it for their own ends without any obvious coordination. Approaches tend to operate hermetically and in parallel, which dissipates the efforts of those responsible. Feedback, potential capitalization and the adaptation of IC to the specific conditions of each department depends on the goodwill and vision of ministerial actors who are constrained by their managers (often the secretary-general) who decide how the project should be run. Coordination between ministries and the emergence of a unified corporate approach is rare. As an example, some departments consider it imperative to have a comprehensive approach to internal accounting and budget control, while others claim that there are legitimate boundaries between the two domains. In this case, the meaning of the IC process is weakened. The increasing number of authorities able to issue recommendations helps to perpetuate misunderstanding of the device by civil

¹ Since 2004, departments have been primarily focused on assimilating the new budgetary and accounting framework created by the LOLF, and the development of large computer systems such as ACCORD and CHORUS.

² This qualitative analysis was conducted by the authors between March and June 2011 using semi-directive interviews with ministerial technical specialists, and DGFIP and parliamentary officials.

³ There is informal coordination between authorities (DGFIP, Direction du Budget, Opérateur National de Paye, etc.) but this goodwill-based mechanism is not acknowledged by officials responsible for IC.

servants and particularly by senior management who are not especially interested in the issue. This situation is even more of a problem when it has already been established, both in theory and practice, that the commitment of senior management is a key element for success.

A short-term approach

Some government actors are quick to highlight the ambiguous effect of the reservations of the *Cour des comptes*. Under pressure from the Court, those responsible for making changes significantly constrain the way IC is implemented. Rather than try to control the risks inherent in activities, IC is implemented simply to satisfy the demands of the Court. At this point in time IC is seen as nothing more than a means of complying with the auditing agenda and the accounts certification exercise conducted by the Court. There is therefore a gulf between the reality on the ground and the desired situation, which is to the detriment of the effectiveness and sustainability of the process. An internal control system should be built gradually, as the organization's ability to understand and formalize its business and risk grows. A short-term approach is deeply antithetical to the goals of the process.

An organizational lever

The knock-on effects of IC implementation, i.e. its ability to disseminate NPM axioms, are far more sensitive than the expected outcomes. Almost unanimously, operational actors note that the implementation of IC has made it necessary for departments to formalize their activities through the identification of processes and responsibilities. This has had significant consequences, and has in fact led authorities to reflect deeply on their functional organization and working methods. Internal control has played an important role in triggering this re-think. However, the impact of the process has so far been limited; a fact which has not escaped the attention of the *Cour des comptes* who note that the work has not been clearly identified, centralized, or formalized in a consistent way. Moreover, formalization has not been undertaken by all the major government departments. However, the increasing use of IC by a few departments demonstrates that they have used the process to strengthen the relationship between bodies and bolster their functional position with respect to hierarchical entities. A good example is the financial affairs directorate of the Ministry of Defense, which has noted that IC has formed the basis for new working relationships between the large authorities that make up the ministry.

IC does not appear so far to have borne fruit in terms of the management of activities. Part of the problem is that there is no reliable way to measure its effects directly, either because of the lack of measurement devices or because the figures are too recent to be meaningful. However, IC has helped to plant the seed for a profound reflection on the nature of the methods and means of activity, which is consistent with the aims of current state reforms.

A special case: the DGFIP

Finally, and to put the situation into perspective it is important to note a special case, the DGFIP. The DGFIP instigated the move towards IC, and has made far more progress in its implementation than other administrative offices. The department is fully aware of both the urgent need to formalize their processes and the complementary roles played by IC and audit. It is currently the only administrative entity to have gradually abandoned IC as such, and turned it into a component of risk management policy, clearly placing the concept at the heart of its management practices. The creation of the national risk management office (*Mission*

nationale de maitrise des risques; MNMR), supported by the national auditing office (*Mission nationale d'audit*; MNA) initiated a virtuous circle of continuous operational improvement. However, these arrangements are recent and no reliable indicator of effectiveness is available.

The three key factors for the implementation of the approach were:

- The cultural factor. DGFIP actors have traditionally worked within a risk culture. As a result the concepts of IC and more importantly, risk management were already familiar to actors.
- The merger. The approach was implemented when the public accounts department (DGCP) and the tax department (DGI) were merged. The inclusion of risk management in the complete overhaul of the directorate facilitated its acceptance by actors as it was seen to be part of a new administrative organization, and not as an extra step, grafted onto an existing structure.
- Last but not least, the change was fully supported by the Director General and the minister responsible, making risk management an assumed part of public policy, unlike IC which is still considered to be a technical device.

Conclusion

It is clear that internal control is an instrument of risk management which must operate in conjunction with other organizational devices such as management control or audit. These components, when put together as part of a comprehensive risk management system, are a strategic element of the organization.

An examination of the definition of IC and its implementation in the French state administration raises many issues. IC has a lot more to offer than it might appear. Beyond a purely technical or managerial approach, it is a medium for significant state reform, and in a way which seems to broaden the scope of these reforms.

However, with very few exceptions, implementation in the field is difficult. A transversal view of activities which is at odds with the Weberian hierarchical model of actors is the most delicate, quasi-cognitive limitation in the implementation of these administrative changes. It is worth noting that what is true for IC is also true for the implementation of large-scale information systems; the subject of another of the Court's reservations.

The decree of June 28th 2011 on internal audit is a recent development in the regulatory framework that seems to confirm the existence of this inconspicuous public policy, which is leading increasingly to a genuine risk management approach in public sector management. These issues pose a real challenge for the French government. After more than four years of trial and error in the establishment of effective IC systems, focused on accounting or financial matters, the administration is moving, almost insidiously, towards a comprehensive risk management approach. The outstanding issue at the present time is the capacity to mobilize administrations which seem largely dependent on political leadership that could, given the experience so far, re-politicize and weaken the process.

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